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## PROBABLE DEVELOPMENTS IN AUSTRIA

*Submitted by the*

### DIRECTOR OF CENTRAL INTELLIGENCE

*The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.*

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## PROBABLE DEVELOPMENTS IN AUSTRIA

### THE PROBLEM

To estimate the present situation and probable developments with respect to Austrian domestic and foreign policies and Austria's position in international affairs.

### CONCLUSIONS

1. Barring deterioration of Austrian economic conditions and of the international situation, the maintenance of internal political stability under a coalition government is probable. Termination of the occupation would remove a powerful cohesive force from Austrian politics, a circumstance which would probably increase political and social tensions, and might result in dissolution of the coalition. However, we believe that even in the event of an early end to the occupation, the chances are better than even for a continuation of political democracy and stability in Austria.

2. The Austrian economy is extremely sensitive to changes in world trade conditions, which at present are highly favorable to Austria. Provided trade conditions remain favorable, and barring substantially increased Soviet interference with the Austrian economy, Austria's rate of economic growth, now second only to West Germany in Western Europe, is likely to exceed the Western European average. Although Austrian trade with Eastern Europe has declined from 33 percent of total Austrian foreign trade in 1937 to 11 percent at present, Austria still

is more heavily dependent upon trade with the Bloc than is any other country in Western Europe except Finland, and its export industries remain vulnerable to Soviet trade offers.

3. Austria's overriding foreign policy objective is to see the end of the occupation and the restoration of full independence. To attain this objective Austria would almost certainly grant concessions to the USSR. However, the Austrians would accept no settlement which they believed would impair Austria's security or increase Communist influence in domestic political affairs.

4. At the same time, Austria will probably feel compelled to maintain a delicate balance between its basically pro-Western orientation and the necessity of avoiding actions which the Soviet Bloc could interpret as unfriendly. This situation will continue to introduce an element of ambivalence into the conduct of Austrian foreign policy.

5. So long as the Soviets avoid indicating clearly that they will never agree to a State Treaty, the Austrians will be unwilling to jeopardize their chances of obtaining Soviet consent to the treaty by

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agreeing to any Western proposals for a substantial increase in Austrian military strength during the pre-treaty period.

6. If the occupation forces were withdrawn, Austria's present and projected security forces probably could cope with any internal threat from the currently weak Communist Party. The security forces, if reinforced by the Austrian military forces authorized by the "Long Draft" Treaty, although they could not defend Austria against an invasion, would

almost certainly suffice to meet any other Communist attempt to overthrow the government by force.

7. The continued occupation of Austria offers the USSR several military and political advantages. We believe the USSR regards Austria primarily as a bargaining counter in the struggle with the West over the German issue. In any event the USSR probably would relinquish its position in Austria only within the context of a German settlement.

## DISCUSSION

8. Although Austria remains occupied pending conclusion of a State Treaty and is divided into US, UK, French, and Soviet zones, the Austrian Government administers the entire country. All Austrian legislation is subject to review by the four-power Allied Council. However, unanimous four-power consent is required only to constitutional changes, so that most Austrian laws are not subject to veto by any one power. The Allied Council and other four-power agencies still meet regularly, but are now used by the three Western Powers primarily as vehicles for strengthening the authority of the Austrian Government against Soviet encroachments.

9. The Austrian people resent the protracted occupation but they have learned to live with it, and its continuation is unlikely to affect Austria's political orientation, including the vigorous anti-Communism of the people. With assurance of Western support, the Austrians will almost certainly continue to resist Soviet attempts to encroach upon their political freedom. This determination is unlikely to weaken even if the occupation is prolonged. In the Soviet zone, the population will probably not resort to open resistance but will accept the Soviet occupation as an unavoidable burden, and as long as free elections are permitted will continue to vote against the Communist Party.

### I. THE DOMESTIC POLITICAL SITUATION AND OUTLOOK

10. Austrian political life since the restoration of the republic in 1945 has been marked by the unbroken predominance of a moderate pro-Western coalition government composed of Austria's two major political parties, the People's Party and the Socialists. Approximately equal in strength, these parties won 83 percent of the vote in the 1953 national election and they control 147 of the 165 seats in the Nationalrat. Although the two parties differ substantially on questions of social and economic policy, they have been consistently able to compromise. The government has been highly successful in maintaining internal stability and, with over one billion dollars in US aid, in restoring economic prosperity.

11. *The People's Party.* The Austrian Government is currently led by the People's Party which provides the Chancellor, the Foreign Minister, and five other Cabinet members. With 74 seats in the Nationalrat and 41 percent of the 1953 vote, the People's Party represents the Catholic and conservative interests in Austria. It derives its strength from the farming population, big business, and Catholic elements in the upper, middle, and working classes. Although the party is Catholic in character it is not a Church party. Since World War II, the Catholic Church in

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Austria (to which 89 percent of the population nominally belongs) has devoted its efforts in the lay sphere to social problems, and its relations with the People's Party are friendly but not intimate.

12. The purposely vague political program of the People's Party seeks to reconcile the conflicting interests of its component elements of strength and aims at reconstructing Austria along Catholic-conservative lines. The party asserts its devotion to free enterprise, but in effect stands for a state regulated capitalism with corporative and protectionist features. It opposes public investment and secretly favors partial denationalization of heavy industry. The party advocates more agricultural housing, higher prices for farm products, a larger political voice for farm laborers, and it seeks to induce displaced and unemployed persons to settle on farms. The party leaders are strongly anti-Communist, but they apparently believe that a conciliatory policy toward the USSR may win concessions for Austria. Although the People's Party has a one seat plurality in the Nationalrat, its popular strength has declined somewhat since 1949.

13. *The Socialist Party.* The Socialists are a class party representing the vast majority of Austrian labor and segments of the lower middle class. Although the political militancy of the Austrian worker has declined sharply, the party remains a disciplined organization. The Socialists won 73 Nationalrat seats and 42 percent of the vote (a slight popular plurality) in the 1953 election. The President of Austria and six Cabinet ministers, including the Vice Chancellor and the Interior Minister, are Socialists.

14. The Socialist Party pursues a slightly less far-reaching social welfare policy than that of the British Laborites. Because the workers have become practically indistinguishable from the middle class in terms of economic status, and because the discrediting of Communism has eliminated serious competition for votes from the extreme left, the Socialist Party has in practice abandoned Marxism and adopted moderate programs designed to at-

tract a wider segment of the population. It has also abandoned its anticlerical bias in favor of mild secularism, and it demands no further nationalization of Austria's basic industries. To protect the interests of its supporters, the party advocates social and labor legislation and a high level of public investment, and defends the existence of the antiquated guild system. The economic well-being of the nation and the party's eagerness to remain in the government will almost certainly continue to induce the Socialists to accept numerous compromises with their coalition partner. The Socialists are strongly anti-Communist, and their influence with labor has been an important factor in maintaining the Austrian Government's authority in the Soviet zone.

15. The financing and control of investment will continue to be a fundamental point of difference between the two coalition parties, with the Socialists pressing for a high level of public investment financed by taxation, while the People's Party advocates conservative policies designed to attract foreign capital and restore the domestic capital market.

16. *The Opposition.* The parties of the extreme left and right, the Communists and the Independents, have respectively four and 14 seats in the Nationalrat. Both are relatively ineffective politically. Communist strength in the entire nation remains static at five percent of the electorate (the percentage is slightly lower in the Soviet zone). Rightist strength represents about 11 percent of the vote and appears to be declining.

17. The Independent Party depends for its support on that segment of the population which has been traditionally unable to adjust either to Catholic conservatism or to the Socialist program. Since 1951, the party has been losing strength and its political influence will decrease still further, except in the unlikely event that it could become a coalition partner of the People's Party if the present coalition were dissolved.

18. Although no Austrian party officially advocates *anschluss*, the Independent Party is the political preference of the small numbers

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of Austrians who retain sentiments for integration with Germany. The decline of the Independent Party may indicate a decline in this pro-German sentiment. There is no evidence that admiration for West Germany's remarkable recovery has revived *anschluss* sentiment in the Austrian population as a whole. On the contrary, Austria's own rapid recovery has inspired greater confidence than in the prewar period in its political and economic future as an independent state. However, in the event of a marked deterioration of the Austrian economy many Austrians might not object to some form of political arrangement with Germany which promised to improve economic conditions while guaranteeing Austrian autonomy.

19. Austria's weak Communist Party suffers from the excesses of the Soviet Army in the immediate postwar period, from Austrian hostility to the Soviet occupation and Soviet obstruction of a State Treaty, and from the traditional preference of Austrian workers for the Socialists. Even the Communist hard core seems to be affected by political apathy, and there is little evidence to suggest that the USSR currently considers the party as an effective instrument for political action. Although it has an estimated membership of about 60,000 and receives considerable financial support from the USSR, the party is one of the least effective in Europe.

20. *The Political Outlook.* The political trend in Austria continues to be toward an intensely competitive two-party system. The division of spoils between the two major parties and the striking persistence of party loyalties militate against the success of third parties. Moreover, Austria's relative economic health, the growth of national consciousness, the reduction of class tensions and religious antagonisms, and the cohesive force of the occupation have introduced a degree of stability that is likely to contribute at least for the next several years to the ineffectiveness of extremist movements. We believe that over the next few years the strength of the two major parties is likely to remain more or less equal. However, the next general elections will probably confirm the recent slight upward trends

in Socialist strength and lead either to a continued slight decline in the People's Party or a stabilization of its present strength.

21. Barring deterioration of Austrian economic conditions and of the international situation, the maintenance of internal political stability under a coalition government is probable. In view of the competition between the two parties and the tensions that develop from government by compromise, there is always the possibility of a recurrence of serious interparty strife. But this development is likely to express itself rather by each party's jockeying to improve its own position within the coalition rather than by efforts to force the withdrawal of the other partner. Neither party is likely to be strong enough to govern effectively against the opposition of the other. In any case, a Socialist-Independent coalition would be highly unlikely. The People's Party probably will continue to keep the Independents alive as a counterweight to Socialist gains, and there may be some sentiment favoring a weak coalition to the right. However, we believe that the People's Party will choose to continue the present successful coalition of conservative and labor elements.

22. If the next general election, to be held not later than February 1957, confirms the recent small gains for the Socialists, the People's Party probably will demand the inclusion of the Independent Party in the government, in an attempt to redress the balance in favor of the center-right. This would face the Socialists with the dilemma of either having to offer the People's Party such attractive partnership terms as to endanger the future adherence of their own left-wing supporters or of going into opposition. On balance, we believe that after a period of crisis both major parties would agree to exclude the Independent Party and to reconstitute the present coalition government.

23. Resistance to foreign control has been a major force for coalition unity. Termination of the occupation would remove a powerful cohesive force from Austrian politics and would make dissolution of the present coalition more likely. Such a dissolution would inaugurate a

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new era in Austrian political life, and it would increase political and social tensions. However, if the occupation is further prolonged for some years, the stabilizing and moderating effect of coalition rule will probably have so permeated the Austrian polity that a genuine two-party democratic system will emerge. Even in the event of an early end to the occupation, the chances are better than even that the country's postwar democratic experience and labor's economic satisfaction will suffice to insure continuation of political democracy and stability, despite a rise in party strife.

## II. ECONOMIC TRENDS

24. Austria is a highly industrialized country with substantial resources of timber, minerals, fuels, and hydroelectric power. The standard of living of its nearly 7,000,000 people is above that of Italy though considerably below that of West Germany. About 40 percent of the labor force is employed in industry, 32 percent in agriculture, and 28 percent in services. The GNP in 1953 was about three billion dollars.

25. Austria's postwar recovery has exceeded the most optimistic expectations, and the economy is in a much stronger position than in 1937. Since December 1953 the country has no longer required US economic aid. As compared with 1938, the GNP has increased one-fourth and industrial production by 60 percent. Coal production has expanded by 75 percent, and the production of hydroelectric power, machinery, steel, and chemicals has more than doubled. Two major new industries, aluminum and petroleum, were developed during the war. War time investments by Germany and massive postwar aid from the US brought about a decided shift from the manufacture of consumer goods to that of capital goods. The huge government investments of the postwar years have laid the basis for further gains in productivity and general economic growth.

26. Austria has succeeded in controlling inflationary pressures, and the present situation is characterized by a moderate industrial expansion, with rising employment and productivity. Austria's balance of payments is expected to show a \$200 million surplus for the

year ending June 30, 1954; its gold and dollar reserves have risen to about \$300 million.

27. Despite the country's remarkable recovery, its economic growth and stability remain subject to certain handicaps: (a) as in most European countries, there is resistance to change and fear of competition. Business, agriculture, and labor alike seek to protect themselves by collective action and restrictive regulation. The highly organized nature of the main economic interests hampers adjustment to new conditions and makes the economy vulnerable to spiralling inflation; (b) low incomes and fear of currency depreciation make it difficult to mobilize investment funds without recourse to inflationary financing; (c) Austria's heavy dependence on foreign trade makes it extremely vulnerable to any decline of economic activity or any retrogression of trade liberalization in Western Europe; and (d) finally, there is the ever-present threat of Soviet interference.

28. Austria is highly dependent on foreign trade because of its heavy reliance on food and industrial raw materials imports; at present, imports or exports account for 20 percent of its GNP. Austria faced serious postwar foreign trade problems due to a drastic deterioration in its terms of trade and the shrinkage in its traditional Eastern European markets. However, Austria successfully adjusted to these problems by redirecting its trade toward the West and by expanding the volume of its exports by 67 percent between 1937 and 1953/1954. West Germany and Italy are Austria's principal customers; West Germany, the US, and the UK are its chief suppliers. Postwar trade relations with the Bloc have been characterized by the Bloc's poor performance in deliveries and by the chronic delay of the Satellites in clearing their debts with Austria. Trade with Eastern Europe has declined from 33 percent of the total in 1937 to about 11 percent. However, Austria still is more heavily dependent upon trade with the Bloc than any other country in Western Europe except Finland, and its export industries remain vulnerable to Soviet trade offers.

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viet interference with the Austrian economy, Austria's rate of economic growth is likely to exceed the Western European average. Maintenance of the present rate of economic growth over the next 10 years would result in an increase of about one-third in Austria's level of living, of about 40 percent in its GNP, and of 50 percent in its industrial output.

30. Austria's foreign trade prospects are less certain than its capacity for economic growth. Like other small industrial countries, its economy is extremely sensitive to changes in world trade conditions, which at present are highly favorable to Austria. In the event of a marked slackening in the world demand for Austria's exports or increased trade restrictions on the part of Austria's principal trading partners, the country may be faced not only with balance of payments difficulties but also with severe employment problems which would strain the relations between the two coalition parties. Moreover, a substantial decline in Western demand for Austrian exports would probably lead to even greater pressure to regain the lost markets in Eastern Europe.

31. *Soviet Holdings.* Austria's postwar recovery has occurred despite Soviet confiscations and subsequent Soviet exploitation of a large segment of the economy of the Soviet zone. By a unilateral interpretation of the Potsdam Agreement concerning the disposition of German assets abroad, the USSR has retained control of a significant segment of the Austrian economy within the Soviet zone. The Soviets control almost all Austrian oil production, the largest in Western Europe, and have increased the exploitation of Austrian oil resources far beyond that achieved by Nazi Germany. Today the Soviet-claimed oil properties account for about 95 percent of Austria's crude-oil production of three million tons, and 80 percent of its refinery production. A Soviet agency controls the Danube Shipping Company's assets in the Soviet zone. Another Soviet agency, the USIA, exercises rights of ownership over about 240 industrial and commercial enterprises, representing 10 percent of Austria's manufacturing industries, and over a chain of nearly 250 retail stores.

32. The Soviet-controlled enterprises enjoy virtual extra-territorial status. They do not pay taxes and customs duties, they ignore Austrian foreign trade regulations, and they fail to surrender their foreign exchange. The Soviet retail stores place Austrian retailers in a difficult competitive position. Current Soviet net takings amount to about \$60 million per annum, or two percent of Austrian GNP. Total Soviet takings since 1945, including war booty but excluding occupation costs, are estimated roughly at \$900 million, nearly the total amount of US aid to Austria.

33. We do not believe that the USSR will return the USIA assets as a whole to Austria in the near future except in the unlikely event of a State Treaty. Should a treaty be concluded, its economic effects would be favorable despite the onerous provisions of the "Long Draft" Treaty, which probably would be the basis for the settlement. This draft treaty provides that the USSR is to receive all the assets of the Danube Shipping Company in the Soviet zone and to retain the bulk of the oil properties for 30 years. Austria would be required to pay \$25 million annually over a six-year period for the return of all other Soviet-controlled properties. The annual rate of repayment would not represent an excessive burden upon Austria. Moreover, the enterprises retained by the Soviets presumably would become subject to Austrian taxation and regulation. There would be further economic benefits, since the withdrawal of Soviet troops would remove the major reason for the present reluctance of investors to invest in the Soviet zone.

### III. MILITARY SITUATION AND OUTLOOK

34. Austria is currently prohibited from organizing regular military forces. Its present security forces consist of the Federal Police (16,500) in the major cities, the Gendarmerie (10,200) in the rural areas, and the Special Gendarmerie, a 5,700 man force trained in the Western zones as the nucleus of the post-treaty Austrian Army. The Special Gendarmerie is organized into four mountain infantry and three infantry battalions. By July 1955, these seven battalions are scheduled to be expanded to 10 (total

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strength of 8,500). The state of training is excellent, except that infantry heavy weapons training has not yet been undertaken. Most of the officers of the Special Gendarmerie and many of its noncommissioned officers have had extensive combat experience, in many cases against the Soviet Army. Communist penetration of the Gendarmerie and Special Gendarmerie is negligible, and over-all loyalty of both forces is high. A number of Communists remain in the Federal Police in Vienna and to some extent in other areas where Communist strength is centered, but the loyalty of the Federal Police is steadily improving, and we believe that they are reliable except in districts where they are under direct Soviet command.

35. If the occupation forces were withdrawn, Austria's present and projected security forces probably could cope with any internal threat from the currently weak Communist Party. The security forces, if reinforced by the Austrian military forces authorized by the "Long Draft" Treaty, although they could not defend Austria against an invasion, would almost certainly suffice to meet any other Communist attempt to overthrow the government by force.

36. So long as the Soviets avoid indicating clearly that they will never agree to a State Treaty, the Austrians will be unwilling to jeopardize their chances of obtaining Soviet consent to the treaty by agreeing to any Western proposals for a substantial increase in Austrian military strength during the pre-treaty period. Self-interest will induce the Austrians to continue military planning with the West in order to obtain Western material assistance and assurances of aid in case of attack.

37. Under the terms of the "Long Draft" Treaty, Austria would be allowed an army of 53,000 men, and a 5,000 man air force. Since the Austrians believe that such a small military force would be of little value in event of attack, they probably would agree to a reduction of these figures, if proposed by the Soviets. If the Austrians believed that such an action would assure a State Treaty, and if

they could increase their internal security forces, they might even agree to a state of unarmed neutrality.

38. Questions relating to Austrian security planning and future control of the army have been matters of controversy within the coalition, but they have not led to serious disagreement. For historic reasons the Socialists will probably desire a militia-type army under effective civilian control. The People's Party will favor a standing army and will seek to control it themselves, both because Socialist reservations about army structure may reduce the effectiveness of the armed forces and because the Socialists control the security forces through the Interior Ministry. However, disagreements over the military forces probably would not result in a dissolution of the coalition if the two parties did not disagree over other important matters.

#### IV. PROBABLE FOREIGN POLICY

39. Austria's overriding foreign policy objective is the removal of the occupation regime and the restoration of full independence. The Austrians are basically pro-Western but are confronted with the dilemma of retaining the moral and political support of the Western Powers while at the same time avoiding actions which the USSR could use as a pretext for encroachments. Since the Western Powers already fully support Austrian desires for independence, the West has little more to contribute toward fulfillment of Austria's aspirations than promises of military protection, about which many Austrians are skeptical, while the restoration of Austrian sovereignty lies in Soviet hands. This situation will continue to introduce an element of ambivalence into the conduct of Austrian foreign policy.

40. Austria will remain anxious to explore any avenues of negotiation with the USSR. Apparently reasonable Soviet overtures on the State Treaty question or on alleviation of the occupation would almost certainly induce the Austrians to participate in bilateral negotiations and probably tempt them to offer concessions to the USSR. The Austrians, realizing that their country has assumed a

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symbolic significance as a small, democratic state on the fringe of the Soviet Bloc, appear confident that for psychological reasons the Western Powers would be unable to oppose vigorously such Austrian efforts to attain important national aspirations.

41. Although the Austrians will seek to rid their country of all foreign occupation armies, with or without a treaty, they will not favor the withdrawal of US forces without the simultaneous withdrawal of Soviet troops. However, to regain full sovereignty the Austrian Government almost certainly, would promise the USSR to refrain from joining any Western defense arrangements, and to expand trade with the Bloc. Since the Austrians are aware that their projected army will constitute a negligible factor in the Western defense effort, they would not hesitate to pledge military neutrality. Since the US no longer furnishes any economic aid, the Austrians are less susceptible to US pressures for East-West trade controls and would be responsive to offers of increased trade with Eastern Europe. However, the Austrians would accept no settlement which they believed would impair Austria's security or increase Communist influence in domestic political affairs.

42. Even in the event that full independence is restored without an Austrian commitment to remain neutral, Austria will probably feel compelled to maintain a delicate balance between the Western orientation of the Austrian people and the necessity of not appearing so pro-Western as to provoke the open hostility of the USSR. In the event of a general war not directly involving Austria, it would probably seek to remain neutral. It would almost certainly be unwilling to join NATO in peacetime because of its exposed geographic position and its desire to avoid any military activities which might be considered provocative by the Bloc. While Austria is sympathetic to European integration, it probably also will avoid identification with any of the integration schemes lest it provoke the USSR. It will participate only in economic organizations, such as the European Payments Union of which other neutral coun-

tries are members. Due to the importance of its steel industry, Austria will continue to seek close relations with the Coal and Steel Community without joining the organization.

43. Austria's relations with the European Satellites will remain cool and formal pending a change in Satellite attitudes. Relations with Yugoslavia are normal and are likely to remain so. As Austria's principal trading partner, West Germany is Austria's most important neighbor and relations will continue to be cordial. The problem of autonomy within Italy for the German speaking population of the South Tyrol slightly mars relations with Austria's southern neighbor. The Tyrolean question will remain an emotional political issue, but the Austrian Government is unlikely to allow it to cloud the country's excellent business relations with Italy.

#### V. PROBABLE SOVIET POLICIES

44. The continued occupation of Austria offers the USSR several military and political advantages. The Soviet zone provides a forward base area from which attacks could be launched on Allied lines of communication between Italy and West Germany in the event of war. It reinforces rigid control of the Satellites by providing the present legal basis for maintaining Soviet troops in Hungary and Rumania. It also denies the West an advanced position adjacent to Hungary and southeastern Czechoslovakia.

45. Politically, the Soviet occupation presents opportunities to forestall the Austrian Government's full alignment with the West. The denial of a treaty prevents the creation of a fully independent Austria which the USSR would probably regard as hostile to the Soviet Bloc regardless of any formal guarantees of neutrality. It is also possible that the USSR may be genuinely apprehensive of another *anschluss*. The occupation reduces the area of direct Satellite contact with the West. It also permits the USSR to use Vienna, with its free communications westward, as the headquarters for various international front organizations and as the channel for introducing Soviet agents into the West. The occupation also provides the USSR with some economic

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advantages, though these are not of great significance to the Soviet economy.

46. Nevertheless, we believe that the USSR regards Austria primarily as a bargaining counter in the struggle with the West over the German issue. In any event the USSR probably would relinquish its position in Austria only within the context of a German settlement.

47. While there is thus little likelihood that the USSR will agree to conclude the "Long Draft" Treaty in the near future, it probably will make occasional conciliatory moves to keep Austrian hopes alive and obscure its own unwillingness to settle the treaty question.

The USSR probably will again propose that the four powers conclude a treaty but retain their occupation forces in Austria until the settlement of the German question.

48. As long as the USSR seeks to convince the world of its reasonableness and peaceful intentions it is unlikely to initiate more than occasional harassment of Vienna's communications with the Western zones. However, if the USSR should conclude that the West had become so weak that harassing measures could force the US to withdraw from Vienna the Soviets probably would step up their restrictions on travel and might even provide the apparatus for a separate Austrian Government in the Soviet zone.

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